MANUFACTURERS HANOVER

Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

Is The Party Over For Consumer Spending?

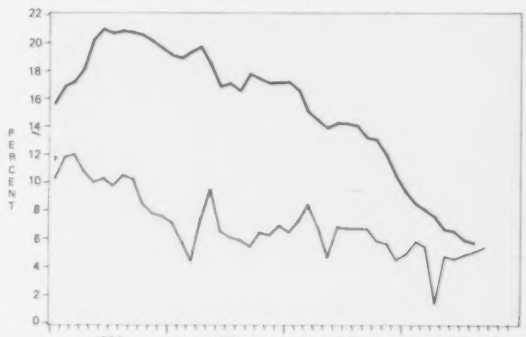
With the Halloween costumes barely stored away and the winter clothing still retaining a faint smell of moth balls, a discussion of the Holiday season may seem a bit premature. But the stock market crash of October has changed all the rules for the fourth-quarter economy. And despite the "tradition" that the Holiday shopping season starts on the day after Thanksgiving, this year it may not start at all.

Already, upscale retailing, especially for automobiles, has been hurt by the crash. But even for the majority of Americans not in the market for BMWs or diamond tennis bracelets, the fall on Wall Street has become cause for worry. The Conference Board reports consumer confidence slipped as a result of the stock market debacle and that 74 percent of consumers recently surveyed were concerned about the market's volatility. However, an equal proportion indicated that the plunge would not change their buying plans for major items, probably because many big-ticket purchases, such as a car or household appliance, cannot long be postponed and because, in reality, only about 20 percent of Americans directly own stock.

Reality and perception, however, are two different things. Despite its low number of participants, the stock market has long been a barometer for this country's future economic condition—as well as its current one. And with the 27 percent drop in the Dow Jones Industrial Average from August through the end of October, the fear is that wary consumers will lock up their credit cards and slash their shopping lists, making this Holiday season the glummest for retailers in the past few years.

Even without the market debacle, this year's fourth-quarter consumer spending would probably have been close to last year's level. One reason is that many consumers increased their spending at the end of 1986 in order to beat the loss of sales tax deductions in 1987. In addition, other developments were already pointing to fundamental problems brewing in the consumer sector, including the still rapid accumulation of debt, the slowdown in income growth and the slackness in job creation.

CONSUMER INSTALLMENT DEBT OUTSTANDING (THICK) VS. DISPOSABLE PERSONAL INCOME (THIN) (12-MONTH PERCENT CHANGE)



Sources: Federal Reserve Board, Department of Commerce

A Love Affair With Debt

Just like the Federal government, the American consumer has developed a fondness for debt. At the start of September 1987, consumer installment credit outstanding—including credit cards, personal bank loans and automobile financing—stood at nearly $600 billion, 37 percent of which had been taken on in just the last 3½ years. As a result, installment credit as a percent of disposable income has skyrocketed from 14 percent in 1983 to 18¾ percent currently.

In addition, credit cards are being used more often. According to the Federal Reserve, the percent of families having credit card debt alone increased by almost 10 percent from 1983 to 1986, and the proportion of installment debt repayments that went toward credit cards rose from 16.9 percent in 1983 to 25.3 percent last year.

While installment debt alone may seem manageable, consumers have also upped their mortgage debt—and not only to purchase homes. The Fed estimates that household mortgage debt grew 45 percent from 1983 to 1986 while the underlying property values rose only 26 percent. And now that the tax deductibility of most interest payments is being phased out, second mortgage

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and home equity loans (whose interest is still a deduction) will surely grow more popular in the future. Although no figures are kept on home equity loans, loans secured by real estate have grown at an annual rate of 19 percent since the end of 1986. Considering that total home sales are sharply below year-ago levels, the bulk of this increase must have been in the form of home equity debt.

Slowdown In Income Growth

The growth in debt would not be so alarming, if it were accompanied by similar increases in personal income. But such is not the case. As can be seen from the chart on page 1, increases in consumer debt were twice as large as disposable income during 1984 and 1985. Since then, the gap has narrowed, but debt growth is still faster than that of incomes. On an inflation-adjusted basis, the picture is bleaker. Real disposable income was up a meager 0.7 percent for the 12 months ending in August.

One cause of the slowdown in income growth is the recent sluggishness in job creation. In 1984 and 1985, new workers were added to the nation's payrolls at a monthly rate of 272,000; by 1986 and 1987, that figure had dropped to 179,000. Despite the low un-

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/21/87)	170,036	+ 1,015	+ 15,542
New York City (10/28/87)	38,747	– 85	+ 5,329
Commercial Paper (10/28/87)	361,825	– 1,695	+ 26,363

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/21/87)	274,301	+ 95	+12,904
New York City (10/28/87)	59,138	+ 1,082	+ 990

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/21/87)	814,440	+ 9,997	+60,872
New York City (10/28/87)	182,008	– 2,814	+21,112

Financial Markets

	Friday 11/6/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills †	5.85%	+ .45	+ .41
180-Day Bills †	6.41	+ .25	+ .78
Longest Bills †	6.87	+ .16	+ 1.06
Recent Issues:			
77/8S 10/31/89	7.58	+ .05	
91/8S 9/30/91	8.15	– .01	
87/8S 11/15/97 (When Issued)	8.77	NA	
87/8S 8/15/17	8.85	– .18	
Municipals:			
Bond Buyer–20 Bond Index* (11/5/87)	7.90%	– .53	+ .96
Blue List Total ($ Million)	$ 697	– $170	– $979
30-Day Visible Supply ($ Million)	$2,353	– $ 66	+ $125
Total	$3,050	– $266	– $854
Corporates:			
Moody's Aa Composite (11/5/87)	10.35%	– .20	+ 1.06
30-Day Visible Supply ($ Million)	$3,602	+ $197	– $510
Stocks:			
Dow-Jones Averages:			
Industrials	1,959.05	– 34.48	+ 72.52
Transportation	768.86	+ 11.62	– 76.14
Utilities	188.06	+ 5.51	– 21.75
65 Stocks	731.54	– .69	– 15.11
N.Y.S.E. Composite Index	140.04	– .76	– 1.46
N.Y.S.E. Avg. Daily Vol. for Week (000's)	208,591	– 73,399	+ 50,039

*34% Taxable equivalent 11.97%

† Bond equivalent

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/6/87	Week Ago
Overnight	6.50%	6.50%
1 month	6.69	7.00
3 month	7.19	7.56
6 month	7.19	7.56
1 year	7.69	7.88
EURODOLLAR BONDS Average Yield		
Medium Term (5 yrs.)	8.65%	8.65%
Long Term (10 yrs.)	9.42	9.42

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/6/87)	Currency Per U.S. $	Week Ago
Canada	1.3205	1.3195
France	5.6985	5.9075
Germany	1.6806	1.7385
Italy	1243.00	1283.00
Japan	135.55	138.00
Mexico	1670.00	1657.00
Switzerland	1.3819	1.4390
U.K.*	1.7790	1.7125

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (11/6/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	–1.2%	–6.0%

employment rate, job security has been a growing concern. More and more managerial-level workers are finding out that layoff is no longer a blue-collar term, and that the National Football League is not the only business that can do without its "professional" employees.

Even before the market meltdown, Wall Street firms had planned layoffs and downsizings. From television networks to the automobile industry, the loss of white-collar jobs had already been announced, either through layoffs, attrition or early retirement plans. For those actually dismissed, the process is devastating; but even for those who are still working, such action dampens confidence in the economy. Now, three weeks after Black Monday, a majority of Americans surveyed feel a recession in the next 12 months is at least "somewhat likely," raising the fear of rising unemployment.

This pessimism, coupled with a huge debt burden and smaller pay increases, can only lead to a cutback in consumer spending. And with the final low point for stock prices still anyone's guess, a drop-off in retail sales during the Holiday season would appear to be a safe bet. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/4/87	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	223.742	– 6.620	+26.018
Loans to Depository Inst.	.603	– .148	– .479
Float	.479	– .129	– .093
Total Reserve Bank Credit	241.838	– 6.771	+25.632
Treasury Deposits with Federal Reserve Banks	7.367	– 6.455	+ 4.448
Currency in Circulation	220.241	+ 1.263	+17.459
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	188.247	+ .091	+24.073
	11/4/87		
Member Banks Reserves:			
Total Reserves Held	58.708	+ .651	+ 6.219
Excess (Deficiency)	1.751	+ .741	+ .937
Net Free Reserves	1.464	+ .979	+ 1.073
		% Change Since	
Monetary Aggregates †		**3 Months Ago***	**Year Ago**
M1 (10/26/87)	768.5	+ 6.5‡	+ 8.4‡
M2 (September '87)	2,874.5	+ 4.6	+ 5.0
M3 (September '87)	3,622.3	+ 5.1	+ 5.8
Domestic Nonfinancial Debt (2nd Q'87)	7,954.0	+ 8.4	+ 11.0

*Seasonally adjusted annual rate.
†Seasonally adjusted. ‡Four-week moving average.

New York Money Market

Offering Rates 11/6/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.78%	6.21%	6.47%
* Federal Agencies	6.60	6.77	6.95
* Municipal Notes—High Grade (34% Taxable Equivalent)	7.57	8.18	8.64
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.05	7.08	7.55

‡Finance Company Paper—Prime

5- 14 days	6.25%
15- 29 days	6.40
30- 59 days	6.60
60- 89 days	6.88
90-179 days	6.88
180-239 days	6.88
240-270 days	6.88

‡Bankers' Acceptances

Dec.	6.66%
Jan.	6.99
Feb.	7.00
Mar.	7.00
Apr.	7.00
May	7.01

‡Industrial Paper—Prime

30- 89 days	6.88%
90-120 days	6.98

†Federal Funds Effective Rate 6.70%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'87	$ 4,512	$ 4,445	$ 4,266
Gross National Product (1982 Dollars)*	3rd Q'87	$ 3,831	$ 3,795	$ 3,718
Percent Change, Annual Rate	3rd Q'87	3.8	2.5	1.4
Change in Consumer Prices*	Sep '87	2.4% (1)	6.0% (1)	3.6%
Change in Producer Prices*	Sep '87	3.6%	0.0%	3.6%
Civilian Employment (Thousands of Persons) †	Oct '87n	113,187	112,772	11 0,192
Unemployment as % of Civilian Labor Force †	Oct '87n	6.0%	5.9%	6.9%
Personal Income*	Sep '87n	$ 3,784	$ 3,758r	$ 3,568
Leading Indicators Composite Index (1967=100) †	Sep '87n	192.5	192.6	179.9
Industrial Production Index (1977=100) †	Sep '87	131.2	131.0	124.5
Net Change in Consumer Installment Credit †	Sep '87n	$ 6.06	$ 5.01r	$ 7.61
U.S. Merchandise Trade Balance	Aug '87	–$ 15.68	–$ 16.47	–$ 14.03
Plant and Equipment Expenditures*	4th Q'87	$406.37(a)	$398.04(a)	$388.69
Private Housing Starts (Thousands of Units) *	Sep '87	1,669	1,598	1,689
New Construction Expenditures*	Sep '87n	$ 406.3	$ 400.1r	$ 400.1
Total Business Inventories †	Aug '87	$ 678.8	$ 677.7	$ 655.6
Total Business Sales †	Aug '87	$ 458.7	$ 452.7	$ 423.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

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